

VZCZCXYZ0012
RR RUEHWEB

DE RUEHBO #4312/01 3381536
ZNR UUUUU ZZH
R 031536Z DEC 08
FM AMEMBASSY BOGOTA
TO RUEHC/SECSTATE WASHDC 5903
INFO RUEHBR/AMEMBASSY BRASILIA 8541
RUEHPE/AMEMBASSY LIMA 6794
RUEHLP/AMEMBASSY LA PAZ DEC CARACAS 1384
RUEHQT/AMEMBASSY QUITO 7490
RUEHZP/AMEMBASSY PANAMA 2745
RHMFIUU/FAA NATIONAL HQ WASHINGTON DC

UNCLAS BOGOTA 004312

SENSITIVE
SIPDIS

EEB/TRA FOR DHUTCHENS AND TROCHE; PASS TO DOT BHEDBERG

E.O. 12958: N/A
TAGS: [EAIR](#) [EINV](#) [ECON](#) [PGOV](#) [ETRD](#) [EFIN](#) [CO](#)
SUBJECT: U.S. AIRLINES EXPAND COLOMBIA OPERATIONS DESPITE
ECONOMIC CLOUDS

¶1. (SBU) Summary: U.S. airlines operating in Colombia have no plans to cancel existing routes or flights, despite a significant drop in bookings in recent weeks and concerns about 2009 profitability. They cite the current global financial crisis and Colombia's strict regulatory structure -- specifically pertaining to the fuel surcharge, internet fares and the travel agency payment schedule -- as the sector's biggest challenges. Nevertheless, they remain optimistic for Colombia's long-term air traffic prospects and most are planning to increase frequencies. End Summary.

FALLING RESERVATIONS

¶2. (SBU) The management of the five U.S. airlines operating in Colombia (i.e. American, Continental, Delta, JetBlue, and Spirit) report that bookings have fallen significantly in the last two months. According to International Air Transport Association (IATA) statistics, reservations for travel between Colombia and the U.S. during the upcoming holiday season (December-February) dropped 27 percent, compared to the same period in 2007. While the monthly load factors have continued to increase, albeit at a slower pace than in 2007, experts expect those numbers to soon drop as well. Delta Legal Representative Ricardo Garnica told us on November 24 that the decrease in holiday bookings was his biggest concern, as it provided a snapshot of what was to come. He highlighted that both Microsoft and 3M recently canceled planned employee travel to the U.S., and that he feared that numerous other companies would follow suit. Regardless, Garnica said he was unaware of any U.S. airline with plans to reduce flight offerings and noted that several are actually looking to expand operations based on long-term forecasts.

DELTA ADDING DAILY FLIGHT FROM BOGOTA TO JFK

¶3. (SBU) Delta presently offers one daily flight from Bogota to Atlanta. On December 19 the carrier will begin another daily flight to JFK in New York. Garnica stated that 70% of Delta passengers to the U.S. are traveling for tourism, and that the company is uncertain as to what extent the financial crisis will have a lasting effect on tourist travel. Nevertheless, he noted it is still cheaper for most Colombians to travel to Atlanta or Miami than to domestic destinations within Colombia. Despite the uncertainty, Garnica said Delta was not thinking of canceling its new flight, especially since it took more than five years of work with Colombia's Civil Aviation Authority (AeroCivil) to gain approval for the route.

AMERICAN HOPES TO INITIATE CARTAGENA SERVICE

14. (SBU) American Airlines currently has five daily flights (one from Cali, two from Medellin and two from Bogota) to Miami. In September 2008 American canceled service from Barranquilla and added a flight from Medellin. Rather than reducing flights, Country Director Jose Giraldo said American hopes to start service out of Cartagena in the future. He added that American is working with Cartagena's municipal government to improve the city's tourist infrastructure. As the majority of American's passengers to the U.S. are traveling for family reasons or tourism, Giraldo said he is not as concerned about reductions in business travel. Giraldo noted that American recently applied for seven more frequencies which became available after Continental left Cali in mid-2008, to add an additional daily flight out of Bogota. He was disappointed that the Department of Transportation (DOT) awarded the frequencies to Spirit Airlines.

NEW SPIRIT FLIGHTS FROM BOGOTA, SAN ANDRES & ARMENIA

15. (SBU) Spirit began operations in Colombia in December 2007 offering daily flights from Bogota to Ft. Lauderdale and from Cartagena to Ft. Lauderdale. They reduced their Cartagena flights from daily to five per week in June due to rising fuel costs, but recently were awarded seven new frequencies from DOT, which they plan to use to begin daily service from Medellin to Ft. Lauderdale on March 1, 2009. Spirit is also

in discussions with AeroCivil and DOT about commencing flights from Armenia and San Andres. Communications Director Juan Arbelaez told us that Spirit has actually benefited from the financial crisis because people are choosing to travel on low cost carriers rather than the traditional larger airlines. Unlike the other U.S. carriers, Spirit is not concerned about future drops in load factor or bookings.

JET BLUE TO BEGIN OPERATIONS IN JANUARY 2009

16. (SBU) Jet Blue expects to receive final operating authority from AeroCivil in December to begin daily service from Bogota to Orlando on January 29, with the plane continuing to New York's JFK airport. The airline expects tourist travel to Orlando to be their major market. Although over 80 percent of Jet Blue's global sales are done via internet, they will also sell through travel agents in Colombia. Jet Blue presently flies to 53 destinations in the region and, according to Director of Government Affairs Jeffrey Goodell, the airline intends to continue expanding in the Caribbean and Central and South America, more than in the U.S. He added that AeroCivil has been helpful and appropriate, albeit a little slow.

CONTINENTAL EXPECTING LESS TRAVEL IN OIL & GAS SECTOR

17. (SBU) With the addition of a daily flight to Houston in October, Continental now has 3 daily flights from Bogota (2 to Houston and 1 to Newark). However, Continental pulled out of Cali in mid-2008 due to rising fuel costs. Country Director Jorge Silva stated that 2009 will be a tough year for Continental, even though the price of fuel is dropping. Approximately 80% of Continental's passengers travel for business, and 40% of those passengers are involved in the oil and gas sector. Silva stated that the combination of uncertainty regarding the economy and the drop in the price of oil is greatly impacting Houston travel. Silva said that Continental is nonetheless optimistic that traffic will rebound over the medium term and, the carrier has no plans to change its routes or flight offerings.

AEROCIVIL REGULATIONS CONTINUE TO CAUSE CONCERN

¶8. (SBU) In addition to the difficult international financial conditions, U.S. carriers tell us Colombian regulations still pose a challenge to their profitability. For example, AeroCivil regulates and sets the national fuel surcharge rather than leaving it to industry. In March, AeroCivil created a new formula for calculating the surcharge that assesses based on final destination in the U.S. rather than entry point, a sore spot for U.S. airlines, particularly Spirit, which alleges that the formula prevents them from being able to offer the low-cost tickets that are central to their business. Spirit has sought a change to the calculation, to no avail. Claudia Esguerra, AeroCivil's Director of International Affairs, said AeroCivil is not considering changing the policy as every airline knew of the regulation before entering the market. No other U.S. airline has filed a complaint.

¶9. (SBU) AeroCivil does normally not allow airlines to publish internet fares lower than fares available to travel agents, a regulation muscled through by the strong travel agency lobby. Spirit, however, successfully gained an exception to the rule and is allowed to publish and offer internet fares lower than those available to travel agencies. According to Esguerra, AeroCivil is reviewing this policy to see whether it can be applied across the board. Thus far neither the other U.S. carriers nor Colombian flag Avianca have aggressively protested this discrepancy because only one percent of passengers currently purchase flights via the internet.

¶10. (SBU) Finally, in mid-2008 AeroCivil agreed to a resolution that would increase the frequency of travel agency payments to airlines from twice a month to every week beginning on December 1. The measure is intended to reduce airlines' losses due to travel agency defaults and is an IATA practice accepted around the world. However, on

November 3, AeroCivil issued a new decree pushing the deadline back to February 2009 to give travel agents more time to adjust during the busy holiday season. Airline directors told us while the delay is only three months, it comes at a critical time of year--the industry lost more money from defaults during last year's holiday season than the rest of the year combined.

LONG TERM PROSPECTS BRIGHT AND COSTS SUNK

¶11. (SBU) Despite economic uncertainty and challenging AeroCivil regulations, U.S. airlines tell us they view expansion in Colombian markets as worth the risk. They highlight that Latin America offers more passenger growth potential for international airlines than any other region in the world and that no other Latin American country holds more potential than Colombia as security continues to improve and the economy develops. American's Giraldo predicts that the number of travelers will continue to increase as Colombia's progress becomes permanent. Colombia has also heavily protected its market in the past and the airlines emphasized to us their hesitation to give up frequencies they worked for so many years to receive. According to Delta's Garnica, the airlines have already sunk major investments in Colombia, so given Colombia's long-term outlook, it is better to continue flying through the near-term challenges.

BROWNFIELD